Annual Report 1985

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Cover: SMDC's Principal Customers

Left to Right, Back Cover: Stockholm, Sweden; Seoul, Korea; Tokyo, Japan. Front Cover: Chicago, U.S.A.; Saint John, New Brunswick, Canada.

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Letter of Transmittal

March 28, 1986

To His Honour
The Honourable
Frederick W. Johnson
Lieutenant-Governor of
the Province of
Saskatchewan

Dear Sir:

I have the honour to transmit herewith the annual report of Saskatchewan Mining Development Corporation for the year ending December 31, 1985, including financial statements in the form approved by the Treasury Board and duly certified by the auditors of the Corporation.

Respectfully submitted,

Sid Dutchak
Minister in charge of Saskatchewan Mining
Development Corporation

Chairman's Message

The mood of pessimism that has prevailed in the uranium industry in recent years has begun to lift. In 1985, demand slightly exceeded supply, although large inventories still exist. Most encouraging of all, nearly all countries with nuclear programs increased their nuclear electricity generation by the largest rate since 1977. Evidence of nuclear's growing contribution to electrical production appeared recently in a report by an OPEC energy analyst, who stated that nuclear power plants have eliminated almost six million barrels a day from global crude oil requirements.

Development of Saskatchewan's gold potential has been accelerated by the exploration activity of the Corporation, which was involved in more than 30 joint venture projects in 1985. SMDC looks forward to production from the Star Lake gold mine in about 12 months time.

SMDC will also follow with interest the course of Canada-U.S. free-trade negotiations to begin in the spring of 1986. We support the recommendations of the McDonald Commission Report. Canada's comparative advantage in mineral resources can only be fully realized in a broader, more unrestricted market. SMDC would prefer a trade zone unhampered by either domestic policy constraints or U.S. embargos. Similar bilateral agreements with the other members of the global economy would also be welcomed.

SMDC's primary goal remains a satisfactory earnings level, to permit improved returns to the shareholders and capital for debt reduction and resource development. For the year ended December 31, 1985, we are pleased to declare an $8.0 million dividend.

In January 1985 the Board was pleased to welcome the Honourable Sid Dutchak as the Minister responsible to the legislature for SMDC. The Minister was joined later by three new Board Members, all from northern Saskatchewan.

The Board and myself as Chairman wish to thank the staff of SMDC for their excellent performance in 1985. We look forward to continuing our productive relationship in 1986.

E.W. Barootes

President's Report

"Earnings, forward reserves, sales, production & dividends all reached new highs."

Roy E. Lloyd
President
Saskatchewan Mining Development Corporation

By most measures 1985 was a successful year for SMDC. Earnings, forward reserves, sales, production and dividends all reached new highs. Commencement of predevelopment work on the Cigar Lake uranium project secures the Corporation's status as a leading world producer of uranium. Our goal of commodity diversification is one step closer with the decision to proceed with the development of the Star Lake gold project.

While the 1985 results are encouraging, depressed prices and the amortization of the potential foreign exchange losses on our large foreign debt combined to hold earnings below target levels. Consequently, the reduction of our debt and interest expenses through cash conservation and innovative financing methods will remain as high priorities for the Corporation in the near term.

Nonetheless, the past year's financial performance is gratifying since it was achieved in a period when uranium spot prices were at extremely depressed levels. Sales of uranium totalled $174.6 million in 1985, $41.3 million more than in 1984. Operating earnings were $88.5 million versus $61.6 million in 1984. Net income was $18.0 million versus $15.2 million in 1984, an increase of more than 18%.

Our shareholder, the Government of Saskatchewan, will receive an $8.0 million dividend. Dividends have been paid every year since 1982 and have increased steadily from the initial $1.2 million.

This year, for the first time in the history of nuclear power, consumption of uranium exceeded production. This signals the beginning of a period of reduction in the large pockets of inventory

held by uranium consumers. We anticipate a gradual improvement in uranium prices during the next four to five years as this inventory is reduced to desired levels.

1985 saw SMDC take a leading role in the establishment of the Cigar Lake Mining Corporation (CLMC). SMDC is the largest shareholder with 50.75%. The new joint-venture operating company has a mandate to develop the Cigar Lake deposit, the world's richest uranium orebody. Production could enter the market by the early 1990s, dependent, of course, on the final feasibility study and the negotiation of long-term sales contracts to cover a substantial portion of the planned output.

Both of SMDC's producing uranium mines enjoyed a successful year in 1985. Total production from Key Lake and Cluff Lake was 13.3 million pounds U_3O_8 (5,250 tonnes U), of which SMDC's share was approximately 6 million pounds U_3O_8 (2,300 tonnes U), almost all of which was pre-sold.

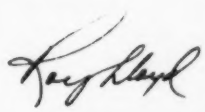
The Star Lake gold property is moving smoothly toward a production date in early 1987. At 220 tons (200 tonnes) per day, Star Lake is a small but economic mine development. The Corporation acted as project operator through the exploration stage and will remain as operator through development and production phases. Our persistence in investing both dollars and time on gold exploration when others saw little purpose seems about to be rewarded.

SMDC continued in 1985 with a more diversified exploration program that emphasized grassroots gold exploration as well as lesser participation in other precious and base metal programs. In contrast, the Corporation's uranium exploration program centers on well-developed properties where work is concentrated on delineating potential orebodies or establishing reserve levels. SMDC's uranium reserves represent about 40% of Saskatchewan's known reserves.

In planning for 1986 and beyond, we expect continued slow improvement in the uranium market. Western world consumption of uranium should rise by 2-3% per year for the period 1985 to 1995. While growth will be largest in Europe and the Pacific Rim, the U.S. will continue to be the largest uncommitted market.

In June, the Corporation's first employee, David R. Francis, Executive Vice President from 1979 to 1985, retired after 35 years of service to the province of Saskatchewan, the last 10 years of which were with SMDC. Much of SMDC's early growth was directed by Dave, as General Manager from 1974 to 1979. The Corporation is indebted to Dave for his foresight in helping to secure SMDC's outstanding reserve position and his overall contribution to the development and shaping of the Corporation.

In closing, I would like to thank our skilled and innovative employees for their contribution to the Corporation's achievements over the past year. Our corporate performance is the sum of each employee's initiative and contribution to a larger whole. To the Board of Directors I extend our sincere thanks for their patience and valuable guidance through this period of adjustment.

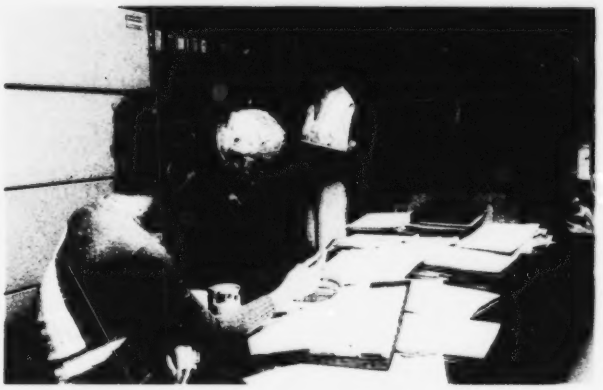


Roy E. Lloyd

Uranium Marketing

"In 1985 we made further progress towards our objectives of securing long-term sales contracts with a diverse geographic distribution of utility customers."

Jim Bonny
Vice President
Marketing and Corporate Development



Wolsung power station is one of five nuclear reactors operating in Korea, where 25% of electricity is generated by nuclear power. This station is a Canadian-built CANDU.

In 1985, more uranium was consumed in commercial power reactors than was produced. However, since utility inventories are still near their historically high levels, market prices in the near term will remain sensitive to the actions of these inventory holders. Uranium producers are nevertheless cautiously optimistic that the worst is behind them. The restructuring of production which has caused high-cost producers without a committed sales base to close out production is almost completed. Unfortunately, the weight of this restructuring has fallen mainly on producers in the United States, but those producers now remaining have recently demonstrated that they can be competitive in the world market.

Nuclear electric capacity continued to grow worldwide. Twenty-eight reactors achieved first commercial operation in 1985, increasing the nuclear electric capacity of the industrialized countries of the western world by more than 20% over 1984. There are now 304 reactors in commercial operation in western world countries. The United States, which has the largest commitment to nuclear power, will bring its 100th nuclear power plant into commercial operation in 1986. Importantly, the performance of operating nuclear stations as measured by their average load factor improved dramatically in 1985. This improvement directly increased the consumption of uranium.

France, Japan and Germany maintained steady progress toward greater reliance on nuclear-electric generation. Each country has or is developing full processing capability in the nuclear fuel cycle. Sweden put into service the final generating unit of its 12-reactor program. In Canada's most populous province, On-

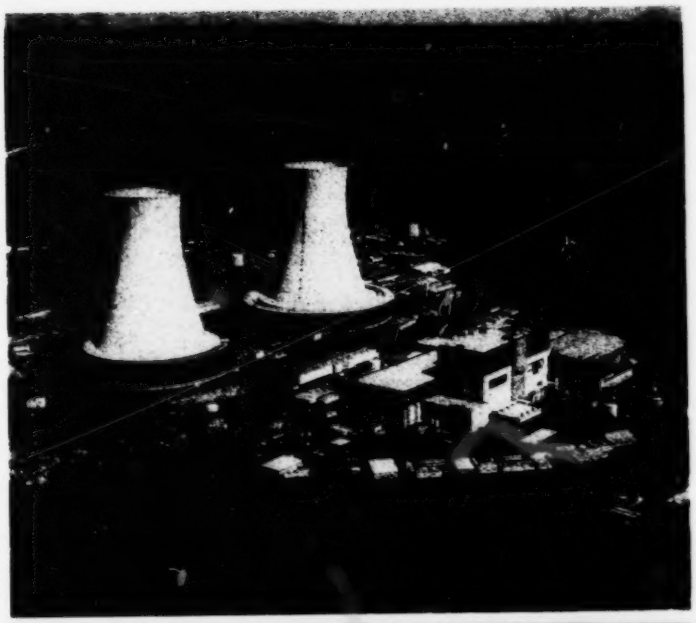
***Top:** Limerick Unit I generating station, Philadelphia Electric Company, went into full commercial power in December, 1985, 2½ months ahead of schedule. Limerick Unit II is under construction at the present time.*

***Bottom:** In 1985 Sweden commissioned the final generating unit of its 12-reactor program. 42% of Sweden's electricity is generated by nuclear power.*

tario, 40% of electrical generation is typically now from nuclear plants. New Brunswick also generates a comparable proportion from nuclear power. The Republic of Korea, which already has a substantial commercial nuclear-electric program, is calling tenders for additional units. Similarly, Taiwan expects to add to the six units it now has in operation. (See chart page 20.)

The spot market price closed 1985 at $17.00 U.S., up significantly from its low in April of $14.25 U.S., and modestly above the 1984 year-end price of $15.00 U.S. Much of the purchasing interest in 1984 was centered on the spot market, but after a slow start in 1985, there was a surge of inquiries from utilities in the United States for medium and long-term offers.

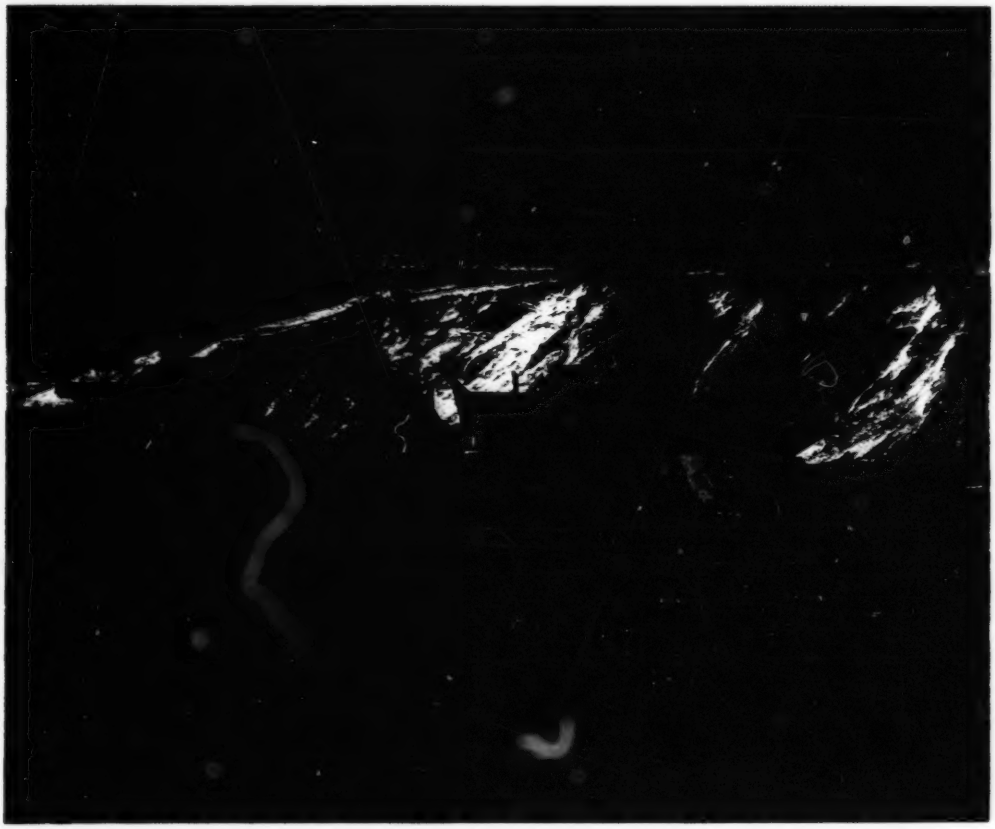
During 1985, 54% of SMDC deliveries of uranium concentrates were made to electrical utilities in North America, 30% to utilities in Western Europe, and 16% to utilities in Asia. These deliveries, together with product loan repayments, accounted for virtually all of SMDC's production in 1985. During the year, two long-term agreements were executed, and at year-end, SMDC had five long and medium-term contracts under negotiation, as well as two spot sales. SMDC's 1986 production is mostly committed. Marketing efforts will be concentrated on securing new long-term contracts and some additional near-term sales for 1987 and 1988. Contracts entered into during 1985 helped fulfill SMDC's objective of committing much of Key Lake production to the mid and long-term markets and of achieving a diverse geographic distribution of customers.



Mining and Engineering

"During 1985 we were able to increase total uranium production while bringing a new gold mine closer to production."

John Tosney
Vice President & Manager
Mining & Engineering Branch



Stripping in the Deilmann pit, the larger of the two Key Lake orebodies, is ahead of schedule.

SMDC is a partner in two operating uranium mines in northern Saskatchewan, one at Key Lake and the other at Cluff Lake. Key Lake Mining Corporation (KLMC) is a joint venture operating company owned by SMDC (50%), Uranerz Exploration and Mining Limited (33⅓%) and Eldor Resources Ltd. (16⅔%). Cluff Mining is owned by Amok Ltd./Ltée. (80%) and SMDC (20%), with Amok as operator of the project.

Pre-development activities are continuing at Cigar Lake, a potential uranium mine in northern Saskatchewan. This is a joint venture between SMDC (50.75%), Cogema Canada (33.625%), Idemitsu Uranium Exploration Canada Ltd. (11.875%) and Corona Grande (3.75%), a wholly owned subsidiary of Cogema Canada.

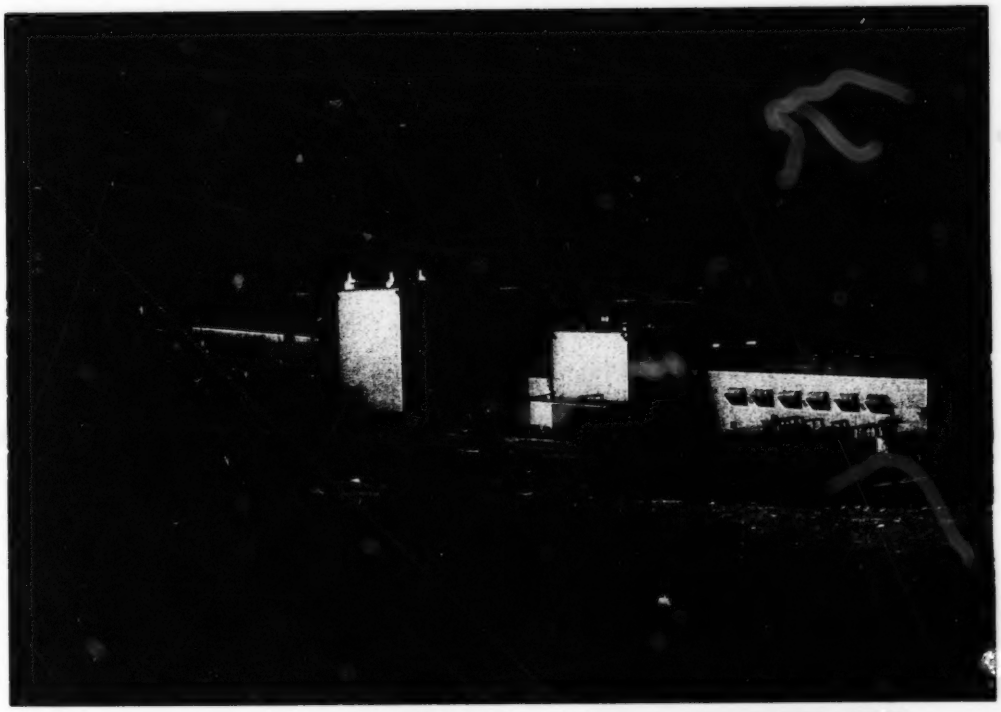
SMDC (50%), along with partners Uranerz Exploration & Mining Limited and Starrex Mining Corporation is also involved in the development of a gold mine at Star Lake in northern Saskatchewan.

Key Lake
Highlights:

- 1985 production totalled 11.1 million pounds U_3O_8 (4,270 tonnes U), or 92.5% of design capacity. This compares with 10.4 million

***Top:** During December 1985 the Key Lake mill achieved a record monthly output of more than one million pounds U_3O_8.*

***Bottom:** Supervision of the main entry to the Key Lake mine site is contracted to SINCO — the Saskatchewan Indian Nations Company.*



lbs. (4,000 tonnes) in 1984, a 6.7% increase.

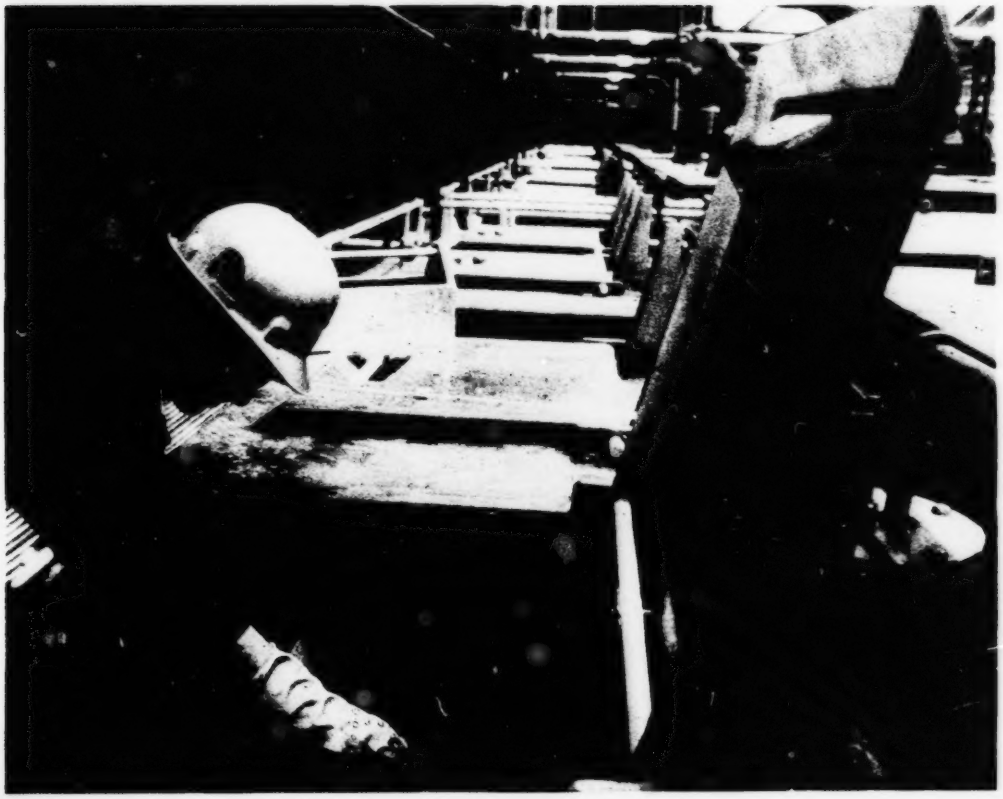
- Recoverable reserves at December 31, 1985 are 174 million pounds U_3O_8 (67,000 tonnes U).

The Key Lake mine continues to be the world's largest producing uranium mine. In December the mill achieved its highest 1985 monthly output of 1.12 million pounds U_3O_8 (430 tonnes U). The best monthly recovery, 97.4%, was achieved in September. Average recovery rate for the year was 95.4%.

Development of the Deilmann orebody, the larger of the two at Key Lake, is proceeding ahead of schedule. More than 2.1 million bank cubic metres of stripping was completed, primarily in preparation for mining this orebody. The Deilmann dewatering program progressed with the installation of 32 new wells, bringing the total to 71.

Modest capital additions and modifications are scheduled for 1986 in order that the specified yearly capacity of 12 million pounds U_3O_8 (4,600 tonnes U) can be obtained on a consistent basis. In addition, some changes to high-maintenance

A Key Lake mill worker monitors solvent extraction process which precipitates uranium in solution as ammonium diuranate. From here, the precipitated uranium is washed and calcined — heated until it becomes powdered — to yield uranium oxide (U_3O_8).



areas will be made to reduce down time and lower unit costs. Studies continue on the optimization of feed grade/throughput relationships, now that two successful years of operating experience has been gained.

SMDC looks forward to profitable operations at this property until the year 2000 at a production level of 12 million pounds U_3O_8 (4,600 tonnes U) per year.

Cluff Mining

Highlights:

- 1985 production totalled 2.17 million pounds U_3O_8 (835 tonnes U), a 35% increase over 1984.
- Recoverable reserves at December 31, 1985 are 38.2 million pounds U_3O_8 (14,500 tonnes U).

Site activity in 1985 focused on the beginning of underground operations at the Dominique-Peter (DP) orebody, where an undercut and fill method was successfully introduced.

During the year 100,500 tonnes of ore, at a grade of 0.54% U_3O_8 was mined from the Claude open pit,

Top: *The large yellow ventilation tube brings a constant supply of fresh air to underground miners at Cluff Lake.*

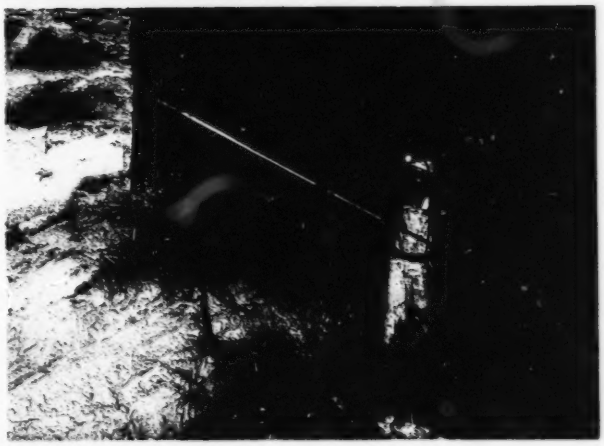
25,500 tonnes at 0.45% U_3O_8 from the underground OP mine, and 25,042 tonnes at 0.62% U_3O_8 from the underground Dominique-Peter mine. Very good grade control was obtained. A new 30 cubic metres per-hour cement backfill plant was placed into effective service.

The Phase II mill consistently produced at design capacity or better, and recovery for the year was 96.15%. The gravimetric residues from the "D" pit were milled in 1985. In addition, reclamation of the pit itself was completed.

Planned for 1986 is the construction of a small plant for the handling of Phase I high-grade leach tails. Production from Cluff Lake in 1986 is expected to continue at 2.1 million pounds U_3O_8 (807 tonnes U).

Cigar Lake Project

The Cigar Lake project is the most



Left: *A miner uses a scaling bar to remove loose rock from the face of the decline in the underground mine.*

Top: Winter drilling at Cigar Lake confirmed this deposit as the world's largest high-grade uranium orebody.

Bottom: Core storage area at the Cigar Lake site.

technically challenging and potentially profitable uranium project in the world at this time. Drill indicated reserves are estimated at 285 million pounds U_3O_8 (110,000 tonnes U) in ore grading 14.0% U_3O_8 in the main zone, and a further 100 million pounds U_3O_8 (38,500 tonnes U) grading 4.5% inferred in the western extension. In May 1985 a new operating company, the Cigar Lake Mining Corporation, was formed in Saskatoon. Its objective is to develop these reserves to commercial production for the early 1990s.

The Cigar Lake orebody lies at a depth of some 430 m and is hosted in weak rocks with a high clay content. Important technical issues include groundwater, rock properties, and radiation protection. Studies in these areas, along with environmental baseline work and conceptual mining methods, continued during 1985. During 1986 detailed work on mine design will continue, and preparation will be made for the licensing of a test mine entry, scheduled for start-up in early 1988.

While the start of commercial operations will be market driven, current estimates foresee demonstration mining in the period 1988 - 1990 and design and construction of a 12 million pounds U_3O_8 (4,600 tonnes U) per year mill for the period 1990 - 1993.

Star Lake Project

The Star Lake gold project is presently the only near-term mine development in the province. It represents an important phase in SMDC's diversification strategy. Indicated reserves are approximately 230,000 tons (2,085 tonnes) at .50 oz. gold per ton (17.1 grams per tonne). The mineralized zone is

Top: An 11.5-km access road has been constructed to link the Star Lake mine to a main Saskatchewan highway.

open at depth, and a number of promising structures nearby are being prepared for exploratory drilling. Considerable activity continues on surrounding lands, enhancing custom mill opportunities for Star Lake.

In 1985 Uranerz Exploration and Mining Limited completed agreements with Starrex Mining Corporation that will earn them a 15% interest in the development lands and 25% interest in the exploration area. SMDC retains its 50% share and will continue as mine operator. Environmental approval for construction and development of a 220 ton per day (200 tonnes per day) mine-mill was granted in October 1985.

During 1985 an 11.5 km access road was constructed into the area, and work started on the first stage of the underground decline. This entry will provide access to the orebody early in 1986 for reserve confirmation and bulk sampling. A detailed schedule is in place to start surface construction in spring 1986 and to have the facilities completed by December.

Left: Environmental studies are ongoing at Star Lake. Piezometers are installed for groundwater monitoring and analysis.

Exploration

"1985 saw the discovery of promising uranium indications in three new areas and further steps toward diversification into other commodities."

Gerry Pollock
Vice President and General Manager
Exploration Division

Highlights:

- Discovery of promising uranium indications in three new locations in the Athabasca Basin, two of these on projects operated by SMDC.
- Increase in the reserves at the Eagle North deposit to 52.4 million pounds U_3O_8 (20,156 tonnes U), in ore with an average grade of 2.6% U_3O_8.
- Further farm outs of uranium projects to overseas companies.
- Further promising indications on several gold projects, including the confirmation of high grade gold and silver mineralization in the Amisk Lake area.
- Restructuring of ownership in several projects in the Neyrinck Lake - Star Lake gold area to provide for greatly expanded exploration in 1986.

***Above:** McArthur River camp. SMDC's exploration programs are concentrated in areas of proven mineralization.*

***Left:** Diamond drilling programs on SMDC properties were very active.*

URANIUM

Cigar Lake

Diamond drilling on the Cigar Lake project has extended the western portion of the deposit. It has now reached a delineated strike length of 2200m. Exploration will continue for possible extensions of the favourable structural setting further along the strike and at other locations on the 234,000 acre (94 500 hectare) property. SMDC holds 50.75% interest in this joint venture.

Close Lake

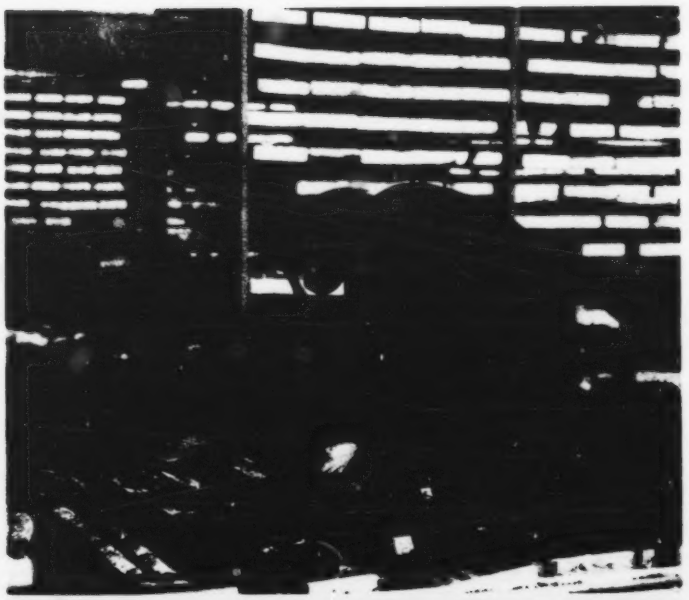
Exploration conducted by Cogema Canada Ltd. on the Close Lake joint venture discovered high-grade uranium mineralization 20 km west of Cigar Lake. The best drill intersection was 12.3% U_3O_8 over 2.4m at an unconformity depth of 650m. Three additional drill holes, in a line with the discovery hole across the mineralized structure, also intersected some mineralization. SMDC has a 23.6% interest in the project.

Dawn Lake and McArthur River

Encouraging results were also obtained on

Top: A staff geologist logs uranium drill core.

Bottom: Bagged samples are then sent for independent assay.



Dawn Lake and McArthur River joint ventures under the management of SMDC.

On the Dawn Lake project, in which the Corporation has 50.08% interest, diamond drilling at Natona Bay, 25 km southwest of Dawn Lake, intersected unconformity mineralization at a depth of 260m, with values to 5.6% U_3O_8 over 5.3m.

Additional sandstone mineralization was intersected on the McArthur River project in the BJ location. Similar mineralization was also discovered in the P2 area located eight km northwest of BJ. At BJ, up to 3.2% U_3O_8 over 4.0m at a depth of 400m, and at P2, up to 1.4% U_3O_8 over 7.3m at a depth of 525m were intersected. SMDC has 43.99% interest in this joint venture.

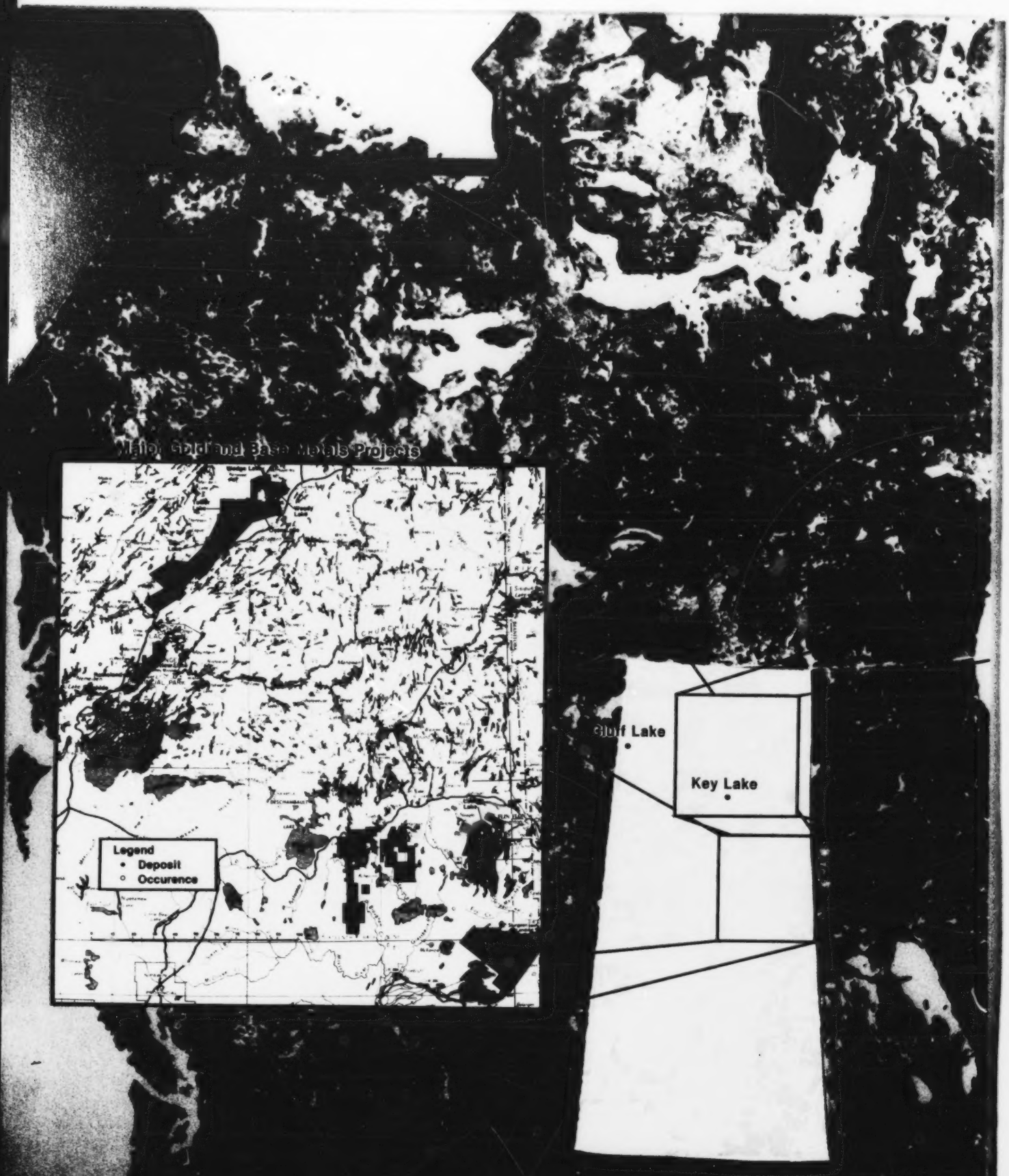
Other Uranium Projects

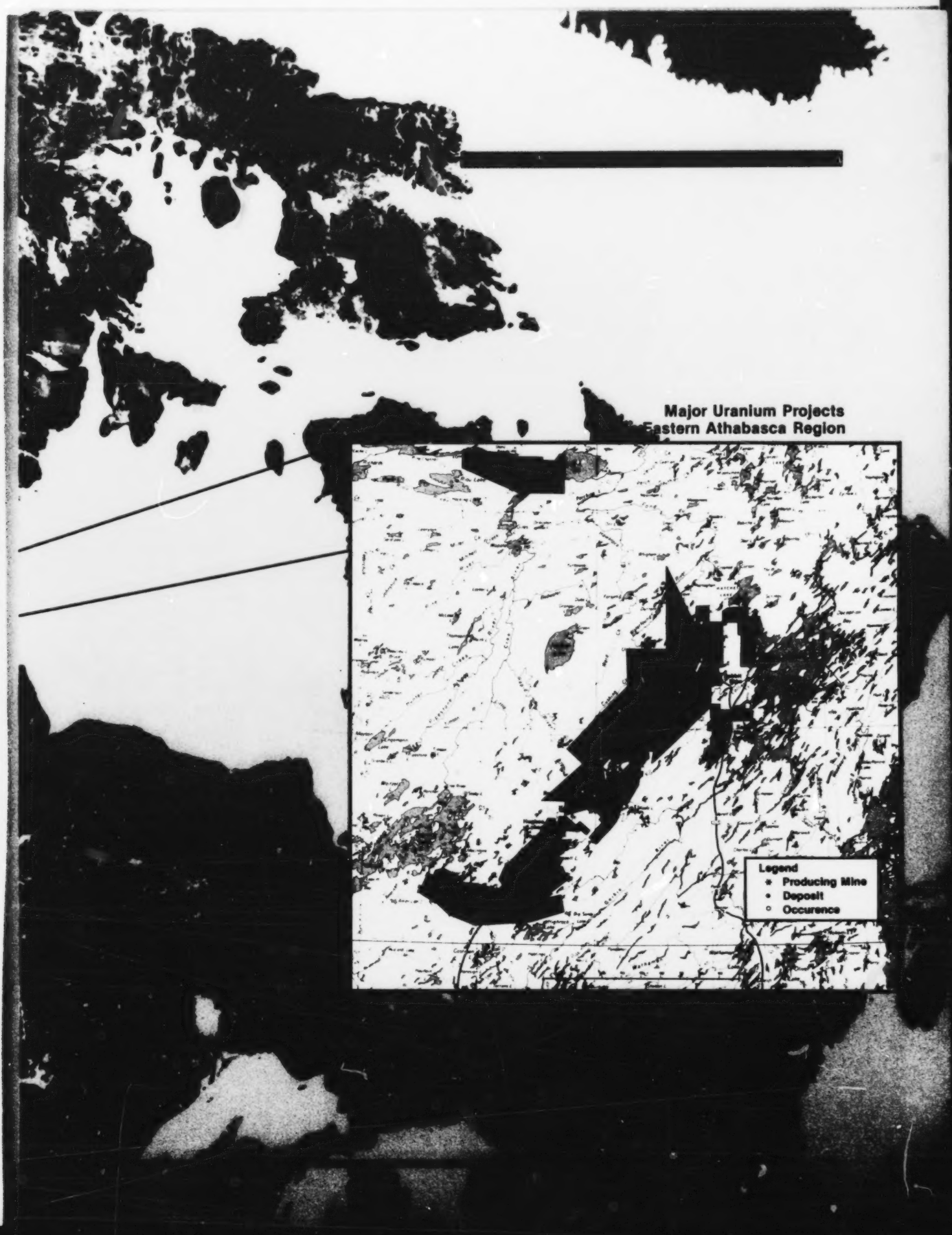
Exploration by Uranerz Exploration and Mining Limited continued on the Cree-Zimmer joint venture which surrounds the Key Lake Mine, and also in the Cluff Lake area with Amok Ltd./ Ltée as the operator. Eldorado Resources Ltd. carried out further exploration on the Eagle North deposit and in surrounding areas. A program of definition drilling on the Eagle North deposit increased the reserves by 38%.

Several uranium projects were reactivated in 1985 following the entry of new farm-in partners. These include six joint ventures involving Uranerz, CEGB Exploration (Canada) Ltd. and Minatco Ltd., north of the Cree-Zimmer project; three SMDC - operated joint ventures involving Denison Mines Ltd., southwest of the McArthur River project; and the Read Lake joint venture operated by Uranerz.

GOLD PROJECTS

The Corporation continued to focus its gold

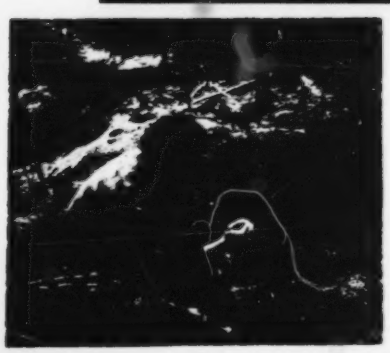

Major Gold and Base Metals Projects
Legend
Deposit
Occurence
Cluff Lake
Key Lake


Major Uranium Projects
Eastern Athabasca Region
Legend
Producing Mine
Deposit
Occurence

Top: Float airplanes bring all supplies to isolated exploration projects.

Middle: Exploration camp at the Sulfide Lake project north of La Ronge.

Bottom: Soil geochemical sampling is an integral part of gold exploration.



exploration activities in three areas of Saskatchewan: the La Ronge greenstone belt, the Amisk Lake area west of Flin Flon, Manitoba and the Ennadai greenstone belt adjacent to the Northwest Territories boundary. SMDC also participated in various projects exploring for platinum, base metals and polymetallic deposits in several areas in Saskatchewan.

Amisk Lake Project

Diamond drilling in the Laurel Lake location on the SMDC-operated Amisk Lake project intersected significant gold and silver mineralization in several drill holes, with assay values from 0.113 to 0.817 oz. gold per ton (3.8 to 28 grams per tonne) and from 0.28 to 7.48 oz. silver per ton (9.6 to 256.5 grams per tonne) over an average width of 2.5m in a high-grade vein system complemented by lower-grade disseminated zones. Further drilling is planned in 1986 to determine the extent and continuity of this mineralization. The Amisk Lake project is a joint venture with Hudson Bay Exploration and Development Co. Ltd.

Star Lake Project

Diamond drilling and surface exploration continued on this SMDC-operated project, in addition to further definition drilling in the 21 Zone deposit. The 21 Zone deposit is scheduled for production in early 1987.

The Star Lake property is located 137 km by road northeast of La Ronge. The project is owned by SMDC, Starrex Mining Corporation and Uranerz Exploration and Mining Limited.

Preview Lake Project

Encouraging results were received from surface exploration and diamond drilling on the Preview Lake project, located in the La Ronge Provincial Park. One drill hole in the Ramsland Lake area intersected three mineralized zones. They assayed 0.453 oz. gold per ton (15.5 grams per tonne) over 1.5m, 0.476 oz. gold per ton (16.3 grams per tonne) over 3.5m and 0.146 oz. gold per ton (5.0 grams

SMDC is involved in 29 new gold projects in the area surrounding the future Star Lake gold mine.

per tonne) over 1.0m respectively. Further drilling is planned in this area and elsewhere on the 42,000 acre (17 000 hectare) property.

Sulphide Lake Project

Diamond drilling and surface exploration continued during the year on the Sulphide Lake project, also in the La Ronge Provincial Park area. Further drilling is planned to delineate and extend previously indicated reserves and to test new targets. The project is a joint venture with Denison Mines Ltd. and Torex Exploration Ltd.

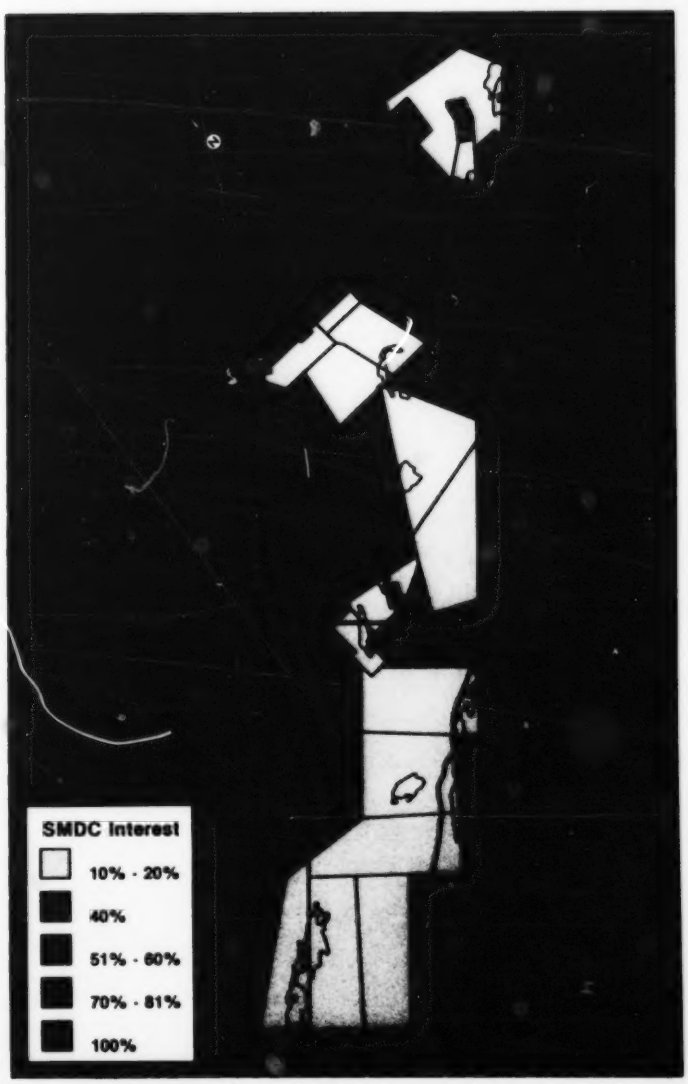
Neyrinck Project

The Neyrinck, Tower and Oven projects were inactive in 1985 while the joint venture partners negotiated a reorganization of interests to provide each partner with voting control over part of the project area. These projects cover 234,000 acres (94 500 hectares) of the La Ronge greenstone belt approximately centered at the Star Lake deposit. These projects are joint ventures with Golden Rule Resources Ltd., Goldsil Resources Ltd. and Comaplex International Ltd.

Agreements signed in October created 29 separate projects, with expenditure commitments of $3.4 million on six projects by May 1987. Major drilling programs are planned next year on projects adjacent to the Star Lake mine development and the Mahogany Minerals property and in the Tower Lake and Weedy Lake areas. Several other projects became available for farm out to new partners, and by year end two such farm outs were concluded.

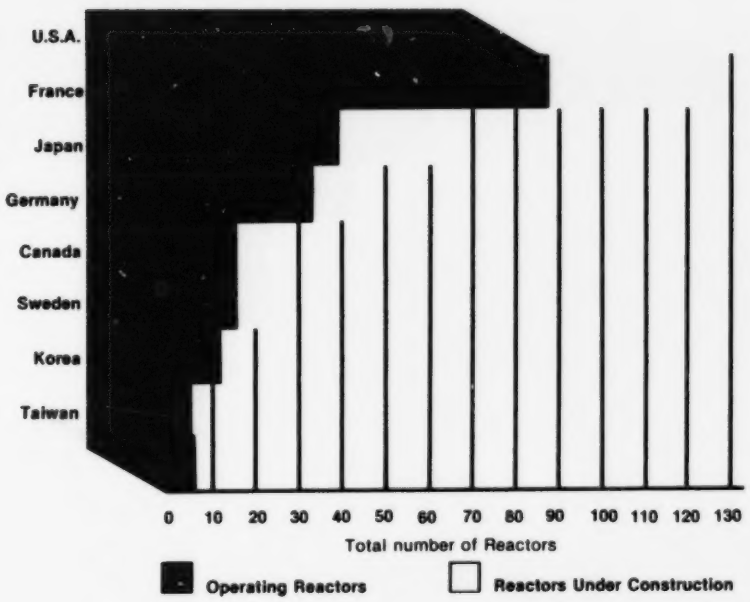
Other Projects

During 1985 SMDC also participated in four other gold projects, four projects exploring for base and polymetallic deposits, and two platinum projects.



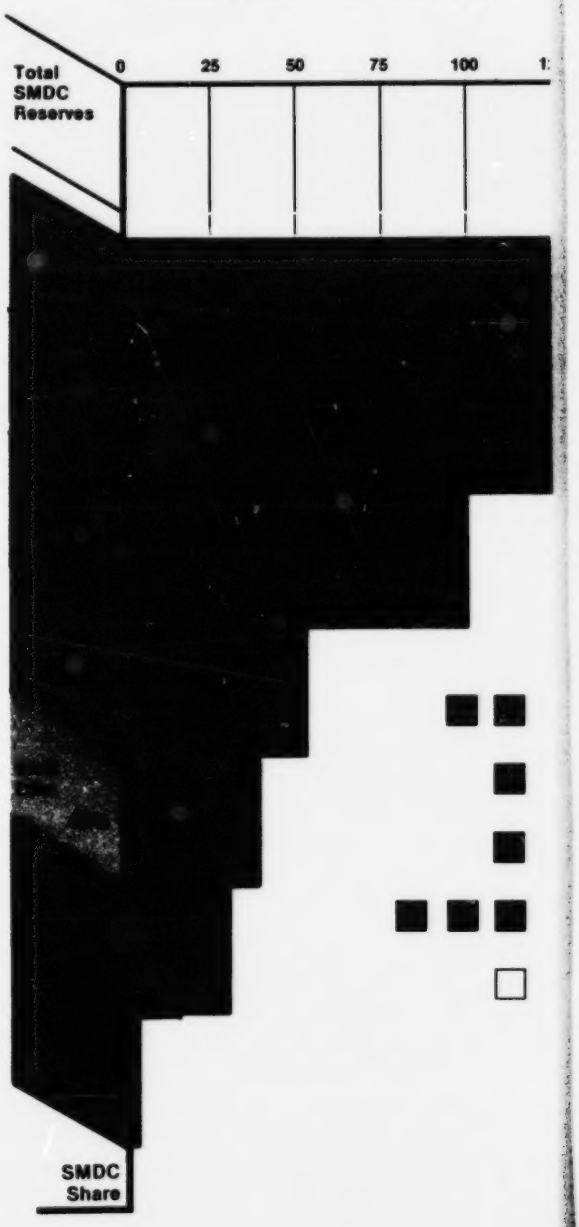
The Report in Charts

Western World Nuclear Power Plants

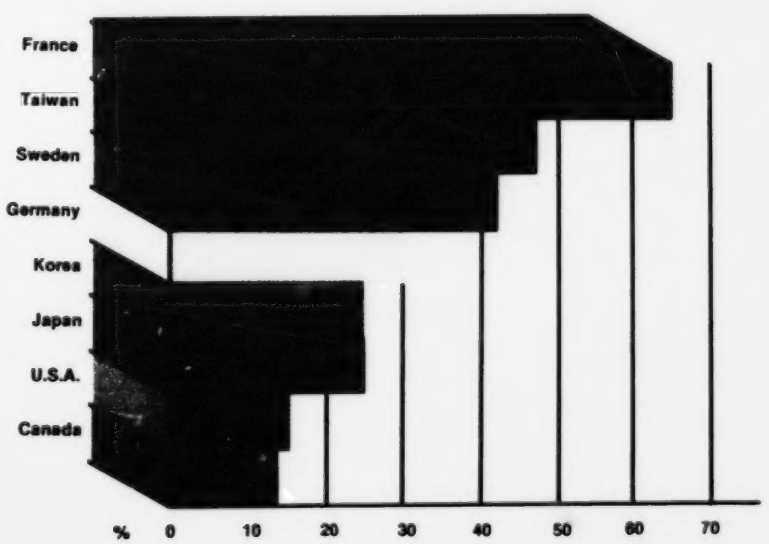


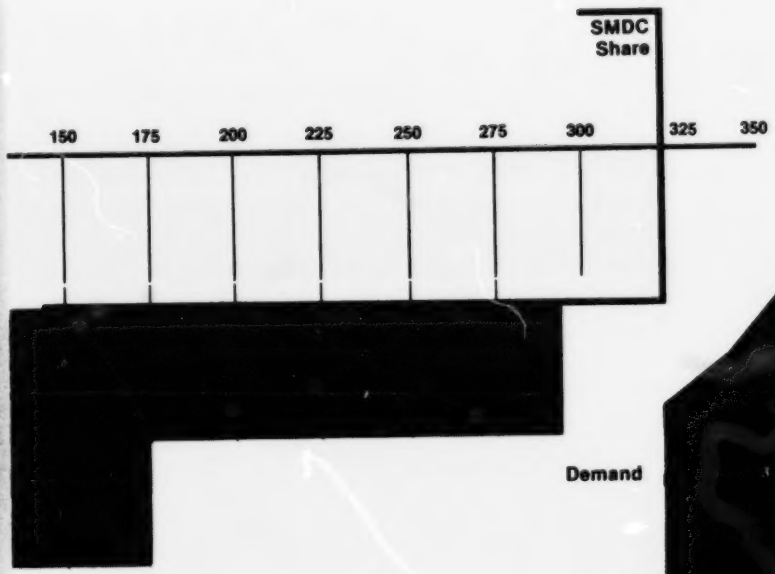
Uranium Reserves

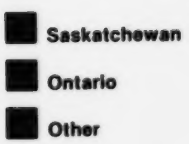
Contained Uranium — million lbs. U_3O_8



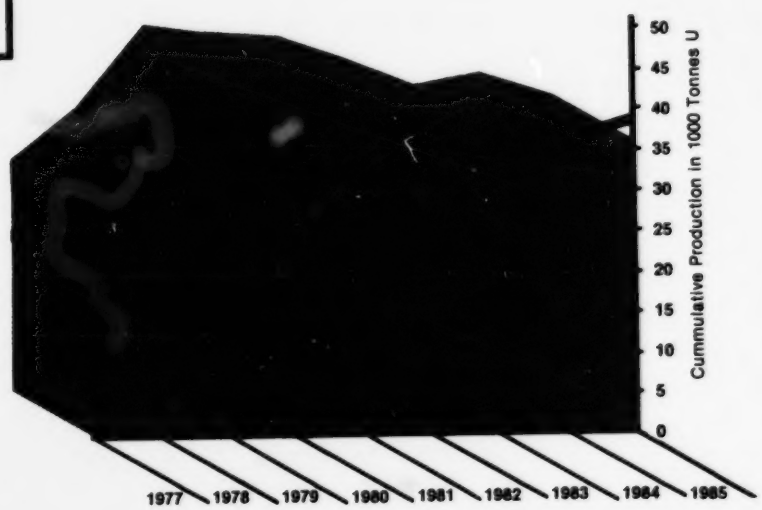
Percentage Electricity Generated by Operating Reactors







Uranium Production and Demand



Operating Mines

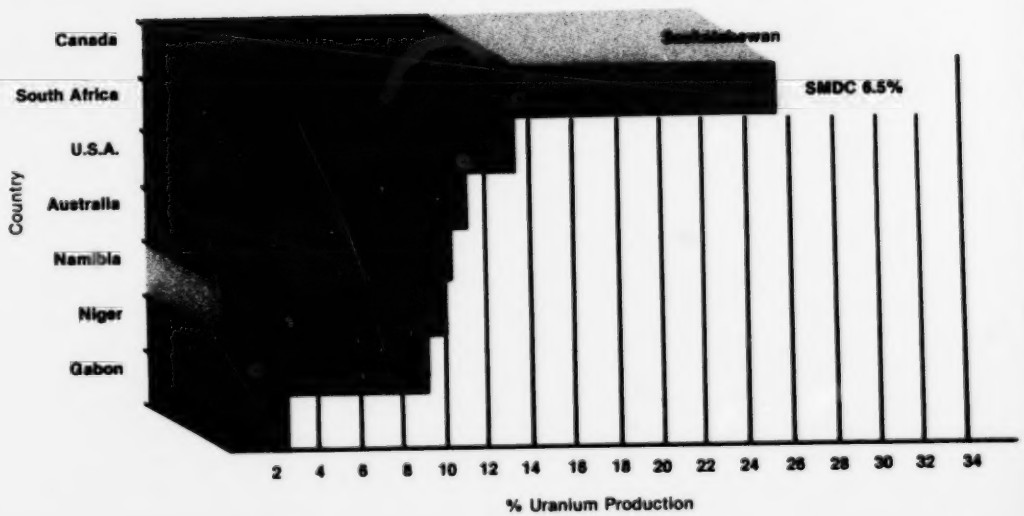
Predevelopment Project

Inferred Reserves

Other Projects

SMDC Reserves

Western World Uranium Production



Financial Commentary

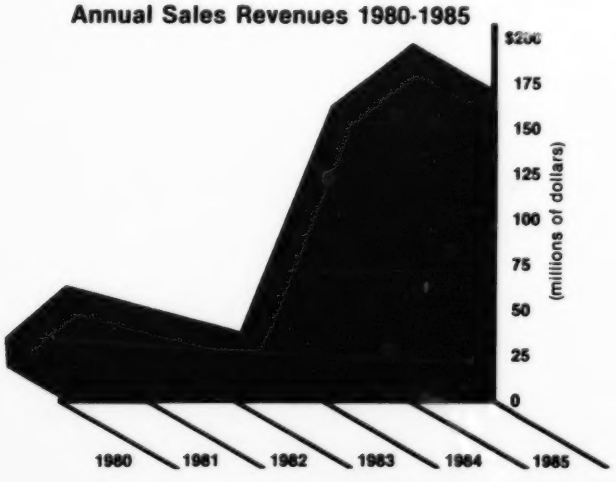
"The primary objective is the reduction of SMDC's debt and interest burden in order to enhance profitability and balance the debt/equity structure."

Arnold Hillier
Vice President
Finance and Administration

Sales revenues reached $174.6 million in 1985 compared to $133.3 million last year, producing operating earnings of $88.5 million. This is an increase of $26.9 million over the 1984 operating earnings of $61.6 million.

Corporate net earnings increased to $18.0 million for the year, an increase of 18.4% over 1984 net earnings of $15.2 million. While the Corporation's cash flow was enhanced by the 5.6% devaluation of the Canadian dollar against the U.S. dollar during the year, net earnings have been adjusted downward substantially to provide for the potential loss on foreign exchange on our U.S. borrowing if the Canadian dollar remains weak against its U.S. counterpart at the time of its redemption.

Annual Sales Revenues 1980-1985



The Corporation's heavy debt load, of which more than half carries abnormally high interest rates, continues to be a drain on both cash and net earnings.

Interest costs increased by $11.3 million in 1985, to $94.6 million compared to $83.3 million in 1984. As can be seen by referring to Note 3 of the notes to the consolidated financial statements, foreign exchange losses due to the further decline of the Canadian dollar account for the major portion of the increased interest costs.

Interest expense charged to earnings for the year increased by $24.1 million, to $70.4 million from $46.3 million in 1984. This large increase results from both mines being in commercial production for all of 1985, thereby reducing capitalized interest. In 1984, each of the Key Lake and Cluff Mining projects attracted capitalized interest prior to reaching commercial production.

The development and construction of our two producing mines now completed, our attention is directed towards reducing the debt burden and improving debt management. Consequently, the Corporation entered into several interest rate swap agreements, which have the effect of converting U.S. $175 million of fixed-rate debt into floating-rate debt. Interest costs during the last half of 1985 were reduced by $1.2 million as a result of these swap agreements. This represents some success in

our efforts to reduce debt charges.

The cash provided by operations in 1985 amounted to $100.8 million compared to $50.5 million in 1984. Repayment of a $65.0 million floating-rate debenture, interest payments of $75.3 million, capital expenditures of $21.0 million, and the $7.6 million dividend payable as at December 31, 1984 were financed by $32.2 million of surplus cash at the beginning of the year, $102.8 million of cash provided by operations and other sources as well as $33.9 million in short-term borrowings.

The debt position of the Corporation has decreased by $35.6 million during the year. This reduction was achieved primarily through repayment of product borrowed to fulfill sales commitments prior to the commencement of Key Lake production.

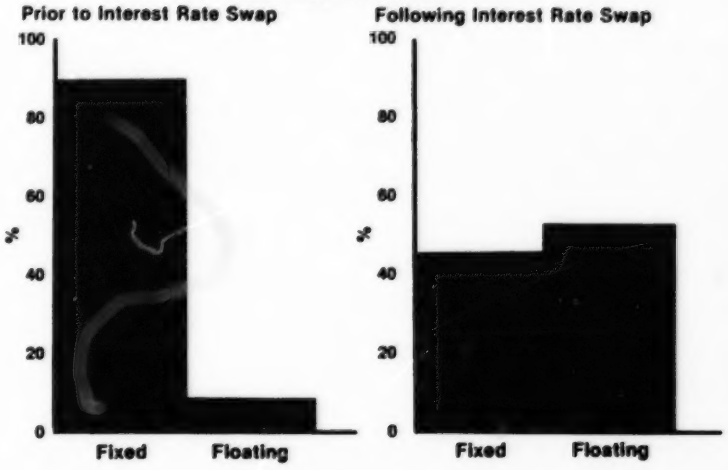
In keeping with its tradition established over the previous three years, the Corporation declared a 1985 dividend of $8.0 million to the Province of Saskatchewan, a 5% increase over the 1984 dividend of $7.6 million.

Outstanding Debt Obligations

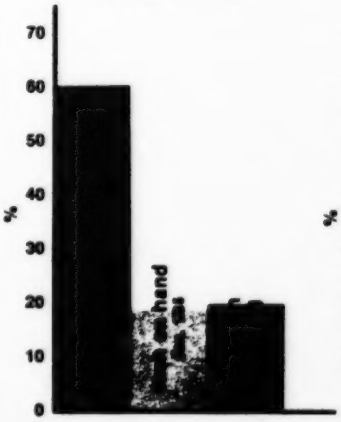
	(Millions of dollars) 1985	1984
Bank indebtedness	$ 33.9	$ —
Due within one year:		
Product borrowing (deferred revenue)	30.1	26.4
Long-term debt	—	65.0
Product borrowing (deferred revenue)	—	36.0
Long-term debt	507.1	479.3
	$571.1	$606.7

Fixed Rate and Floating Rate Debt as a percentage of Total Debt

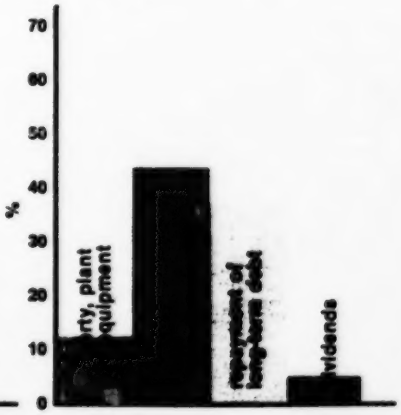
as at December 31, 1985



1985 Sources of Cash by Percentage



1985 Uses of Cash by Percentage



Financial Statements

Management's Responsibility for Financial Reporting in the Annual Report

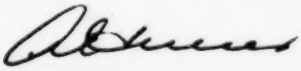
Management has prepared the financial statements of the Corporation in accordance with generally accepted accounting principles applied on a consistent basis. The financial data included elsewhere in this report is consistent with the financial statements and the underlying information from which these financial statements were prepared.

Management has the primary responsibility for the integrity and objectivity of the financial statements. To fulfill this responsibility, the Corporation maintains appropriate systems of internal controls, policies and procedures to provide reasonable assurance that assets are safeguarded and that the books and records reflect the authorized transactions of the Corporation.

The auditors have reviewed the systems of internal control and examined the financial statements in accordance with generally accepted auditing standards to enable them to express their opinion on the financial statements. Their report appears to the right.

The statements have been examined and approved by the Board of Directors.

On behalf of the Corporation.



Arnold E. Hillier
Vice President
Finance and Administration

Auditors' Report

To the Members of
The Legislative Assembly,
Province of Saskatchewan

We have examined the consolidated statement of financial position of Saskatchewan Mining Development Corporation as at December 31, 1985 and the consolidated statements of operations and reinvested earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly, included such tests and other procedures as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the Corporation as at December 31, 1985 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Saskatoon, Canada,
March 10, 1986.

Chartered Accountants

Consolidated Statement of Operations and Reinvested Earnings

Saskatchewan Mining Development Corporation
Year Ended December 31, 1985

	(thousands of dollars)	
	1985	1984
Revenue:		
Sales of concentrates	$174,553	$133,274
Interest from short-term investments	709	650
Other	316	695
	175,578	134,619
Expenses:		
Operating	35,822	28,029
Depreciation and amortization	38,942	31,417
Provincial royalties and taxes	5,373	4,799
Selling and administrative	3,262	2,775
Exploration project areas written off	3,675	6,009
	87,074	73,029
Operating earnings	88,504	61,590
Interest expense (note 3)	70,455	46,352
Net earnings	18,049	15,238
Reinvested earnings, beginning of year	8,547	909
Deduct dividend	8,000	7,600
Reinvested earnings, end of year	$ 18,596	$ 8,547

(See accompanying notes)

Consolidated Statement of Financial Position

Saskatchewan Mining Development Corporation
December 31, 1985

	(thousands of dollars) 1985	1984
Assets		
Current:		
Cash and short-term deposits	$ —	$ 32,194
Due from joint venture partners	646	765
Accounts receivable	20,887	23,692
Inventories (note 4)	14,539	15,086
Prepaid expenses	242	111
	36,314	71,848
Property, plant and equipment (note 5)	816,143	814,614
Deferred charges (note 6)	45,712	32,632
	$898,169	$919,094
Liabilities and Province's Equity		
Current:		
Bank indebtedness	$ 33,920	$ —
Due to joint venture partners	173	927
Accounts payable	10,620	9,191
Deferred revenue (note 7)	30,135	26,462
Dividend payable	8,000	7,600
Accrued interest on long-term debt	37,279	34,934
Long-term debt due within one year	—	65,000
	120,127	144,114
Provision for restoration costs	2,494	1,298
Deferred revenue (note 7)	—	35,963
Long-term debt (note 8)	507,111	479,331
Total liabilities	629,732	660,706
Province of Saskatchewan's Equity:		
Advances (note 9)	249,841	249,841
Reinvested earnings	18,596	8,547
	268,437	258,388
	$898,169	$919,094

Approved by the Board of Directors
Director: E.W. Barootes
Director: J.H. Morrison

(See accompanying notes)

Consolidated Statement of Changes in Financial Position

Saskatchewan Mining Development Corporation
Year ended December 31, 1985

	(thousands of dollars) 1985	1984
Sources of cash:		
Cash provided by operations		
Sales of concentrates	$140,003	$123,756
Operating, selling and administrative expenses	(37,888)	(29,906)
Provincial royalties and taxes	(5,373)	(4,799)
	96,742	89,051
Increase (decrease) in operating working capital		
Due from joint venture partners	119	(179)
Accounts receivable	2,805	(21,891)
Inventories	547	(9,986)
Prepaid expenses	(131)	(7)
Accounts payable	1,429	(6,637)
Due to joint venture partners	(754)	195
	4,015	(38,505)
Cash provided by operations	100,757	50,546
Other sources of cash		
Proceeds on disposal of fixed assets	1,030	—
Deferred revenue	—	5,444
Long-term debt	—	78,960
Interest revenue	709	650
Other income	316	695
	2,055	85,749
Total sources of cash	102,812	136,295
Uses of cash:		
Cash invested in property, plant and equipment	21,020	28,266
Cash committed to financing activities		
Repayment of long-term debt	65,000	—
Deferred financing costs	57	3,902
Interest	75,249	69,635
Dividends	7,600	1,200
	147,906	74,737
Total uses of cash	168,926	103,003
Increase (decrease) in cash	(66,114)	33,292
Cash (Deficiency), beginning of year	32,194	(1,098)
Cash (Deficiency), end of year	$(33,920)	$ 32,194

Note: Cash includes short-term deposits and bank indebtedness.
(See accompanying notes)

Notes to Consolidated Financial Statements

Saskatchewan Mining Development Corporation
December 31, 1985

1. Accounting policies

This summary of significant accounting policies is a description of the accounting methods and practices that have been used in the preparation of these consolidated financial statements.

Consolidation Principles

The consolidated financial statements include the accounts of the Corporation and its wholly-owned subsidiary SMD Mining Co. Ltd.

Joint Ventures

The Corporation's assets and liabilities relate primarily to its 20% interest in the Cluff Mining partnership, its 50% interest in the joint venture operated by the Key Lake Mining Corporation and its interests in other joint ventures varying from 10% to 85%. These interests are accounted for by the proportionate consolidation method.

Inventories

Broken ore and concentrates are valued at the lower of production cost and estimated net realizable value. Supplies are valued at the lower of average cost and replacement value.

Production Facilities and Equipment and Depreciation

Production facilities and equipment are carried at cost and are depreciated by the unit of production method over the estimated economically recoverable ore reserves or by the straight line method if the estimated useful life of the asset is less than the estimated mine life.

Other facilities and equipment are carried at cost and are depreciated by the straight line method at rates varying from 10.0% to 33.3%.

Deferred Mineral Property Costs and Amortization

Each group of contiguous mineral properties is accounted for separately and is designated as a project area. All acquisition of mineral properties, exploration, development and other expenditures relating to each project area are deferred and carried at cost with the intention that they will be amortized by charges against earnings from future mining operations. At such time as it is deemed that a project area does not contain economically recoverable ore reserves, the related deferred expenses are written off to earnings.

The decision to develop a producing mine property within a project area will be based on an assessment of the conditions prevailing at that time. No depreciation or amortization will be provided on such a property until commercial production commences. After a mine property has been brought into commercial production, any additional work thereon will be expensed as incurred, except for large development programs, which will be deferred and amortized over the related remaining reserves.

Deferred mineral property costs are amortized by the unit of production method based on the property's estimated economically recoverable ore reserves.

Capitalization of Interest

Interest is capitalized on expenditures related to construction or development projects. Capitalization is discontinued when the asset is ready for its intended use or development ceases.

Financing Costs

Premium, discount and issue costs of long-term debt are deferred and amortized over the term of the issues to which they relate. The amortization is included with interest.

Foreign Exchange Translation

Current assets, current liabilities and long-term debt denominated in foreign currencies are translated into Canadian dollars at the year-end rate; revenue and expenses are translated at rates in effect during the year.

Foreign exchange gains or losses arising on translation of long-term debt are deferred and amortized over the remaining terms of the debt. The amortization is included with interest. All other foreign exchange gains or losses are reflected in the consolidated statement of operations.

2. Status of Saskatchewan Mining Development Corporation

The Corporation was established by Order-in-Council #865/74 dated June 4, 1974 and continued under the Saskatchewan Mining Development Corporation Act, 1977. The Corporation's accounts are included in the annual consolidated statements of Crown Investments Corporation of Saskatchewan.

	(thousands of dollars) 1985	1984
3. Interest		
Interest on long-term debt	$ 77,594	$ 72,117
Interest paid with concentrates	2,260	3,975
Amortization of deferred financing costs	1,081	827
Amortization of foreign exchange losses	13,676	6,433
	94,611	83,352
Less interest capitalized	24,156	37,000
	$ 70,455	$ 46,352
4. Inventories		
Broken ore and concentrates	$ 9,504	$ 10,670
Supplies	5,035	4,416
	$ 14,539	$ 15,086
5. Property, Plant and Equipment		
Producing properties		
Production facilities and equipment	$299,916	$300,249
Deferred mineral property costs	292,511	289,198
	592,427	589,447
Less accumulated depreciation and amortization	100,239	60,584
	492,188	528,863
Non-producing properties		
Exploration project areas	179,100	170,693
Key Lake Deilmann orebody	144,855	115,058
	323,955	285,751
	$816,143	$814,614
Property, Plant and Equipment includes interest capitalized		
During the year	$ 24,156	$ 37,000
Since inception	$247,542	$223,386
6. Deferred Charges		
Deferred charges, net of amortization consist of:		
Gains and losses arising on translation of long-term debt	$ 41,704	$ 27,601
Financing costs	4,008	5,031
	$ 45,712	$ 32,632

7. Deferred Revenue

The Corporation has obligations under the terms of two product loan agreements.

The deferred revenue, which represents 1,069,444 pounds of uranium concentrates borrowed and sold, will be included in earnings as uranium concentrates are returned to the lender.

In order to borrow 919,444 pounds of uranium concentrates, to be repaid subject to prior notice on or before December 31, 1986, the Corporation has obtained, as collateral, irrevocable letters of credit guaranteed by the Province of Saskatchewan, with a current maximum value of $52,000,000 U.S. If the Corporation should be unable to meet its obligations to return these borrowed concentrates in kind, the lender could, on demand, draw upon the letters of credit for its cost of purchasing substitute concentrates. The annual charge per pound is 6½% of the transaction value published by the Nuclear Exchange Corporation (NUEXCO) one month prior to loan anniversary, provided that the transaction value not exceed $25.00 U.S. or fall below $17.00 U.S. The Corporation is committed to repay these uranium concentrates during 1986.

The Corporation has borrowed 150,000 pounds of uranium concentrates under another agreement, to be repaid subject to prior notice on or before December 31, 1991. If the Corporation should be unable to meet its obligations to return these borrowed concentrates in kind, the lender, through its guarantor, may purchase concentrates from an outside party, and the Corporation must reimburse the guarantor for all costs related to the purchase.

Interest includes charges for borrowed product.

8. Long-Term Debt

	(thousands of dollars) 1985	1984
Floating rate debenture Series A unconditionally guaranteed by the Province of Saskatchewan matures on March 1, 1985 subject to prior redemption with interest payable quarterly at a rate of ¼ of 1% less than the average prime rate of the Royal Bank of Canada.	$ —	$ 65,000
Province of Saskatchewan notes of $100,000,000 U.S. mature on November 15, 1988 subject to prior redemption with interest at 16¼% payable annually.	139,830	132,170
Province of Saskatchewan notes of 150,000,000 Swiss francs fully hedged at $77,662,684 U.S. mature on March 1, 1988 with interest at 15⅜% payable annually.	108,596	102,647
Province of Saskatchewan notes of $50,000,000 U.S. mature on March 15, 1989 with interest at 16% payable annually.	69,915	66,085
Province of Saskatchewan notes of $60,000,000 U.S. mature on November 15, 1989 with interest at 11⅞% payable annually.	83,898	79,302
Province of Saskatchewan notes of $75,000,000 U.S. mature on March 15, 1990 with interest at 10¼% payable annually.	104,872	99,127
	507,111	544,331
Less amount due within one year	—	65,000
	$507,111	$479,331

During the last half of the year the Corporation entered into several interest rate swap agreements maturing at various dates from August, 1987 to September, 1988. These agreements have the effect of converting $175,000,000 U.S. of fixed rate debt into floating rate debt. The agreements include certain covenants on behalf of both parties thereto and provide for early termination under specified conditions.

9. Province of Saskatchewan's Equity

Advances are non-interest bearing and are repayable at the discretion of the Province.

Advances to date have been obtained from:

	(thousands of dollars) 1985	1984
The Saskatchewan Heritage Fund	$218,700	$218,700
Crown Investments Corporation of Saskatchewan	31,141	31,141
	$249,841	$249,841

10. Commitments

The Corporation has financial commitments under various joint venture agreements it has entered into in the normal course of operations. The Corporation is required to pay its proportionate share of the exploration and development expenditures to maintain its interest in each joint venture.

11. Subsequent Event

On March 5, 1986 the Corporation received the net proceeds from an issue of Province of Saskatchewan notes of $35,000,000 U.S. maturing March 5, 1991, with interest at 8½% payable annually.

12. Related Parties

Included in these financial statements are expense amounts resulting from routine operating transactions conducted at prevailing market prices with various Saskatchewan crown controlled departments, agencies and corporations with which the Corporation is related.

Account balances resulting from these transactions are included in the consolidated statement of financial position and are settled on normal trade terms.

Other amounts due to related parties and the terms of settlement are described separately in the consolidated financial statements and the notes thereto.

13. Remuneration of Directors and Senior Officers

The Corporation's seven directors (1984 — 7) received, in aggregate, $28,500 remuneration in 1985 (1984 — $45,097).

Sixteen senior officers (1984 — 16) received, in aggregate, $1,230,114 in salaries for 1985 (1984 — $1,151,653).

14. Segmented Information

a) Industry segment

The Corporation derives all of its sales revenue from the production and sale of uranium concentrates.

b) Sales of uranium concentrates

	(thousands of dollars)	
	1985	1984
Foreign	$153,283	$116,394
Domestic	21,270	16,880
	$174,553	$133,274

Directors and Management

Directors

• **Mrs. Helen Swan** is a Saskatoon homemaker with a long-time record of community service.

☐ **Allan Brigden** is a resident of Kisbey, where he farms and operates a fertilizer, chemical and seed business.

• **Jerome Gedir** owns and operates a financial and estate planning company in Prince Albert.

•☐ **Herbert Morrison** brings experience as both a banker and a stock broker; he is now a senior partner in a Saskatoon law firm.

• **Dr. Sonja Ruzinsky** lives in Prince Albert, where she is a practicing psychologist and part owner of a bus company.

☐ **Mel Hegland** is the mayor of La Ronge and part owner of a local airline.

☐ **Walter Nelson** is a resident of Avonlea, where he farms and operates a farm machinery dealership.

• Audit Committee Members
☐ Compensation Committee Members
★ Corporate Secretary

Management

Roy E. Lloyd
President

Alf J. Bentley
Assistant to the President

David R. Francis
Executive Vice President Operations (Retired 1985)

S.J. (Jim) Bonny
Vice President, Marketing & Corporate Development

★ Arnold E. Hillier
Vice President, Finance and Administration

Gerald D. Pollock
Vice President & General Manager, Exploration

John E. Tosney
Vice President & Manager, Mining and Engineering

Donald G. Somers
Vice President, Corporate Affairs